Ascentra
credit union

May 23, 2014

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 55314-3428

Subject: **Prompt Corrective Action Risk-Based Capital Comment Letter**
RIN 3133-AD77

Dear Mr. Poliquin,

I am writing on behalf of Ascentra Credit Union, which primarily serves Eastern Iowa and Western Illinois. We have over 33 thousand members and $343 million in assets. Ascentra Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action – Risk Based Capital (RBC).

We find many aspects of the proposed rule troubling and ultimately detrimental to credit unions. In this letter we will outline aspects that we find most burdensome and give an overview of how these rules would affect a very successful area of our business. The following is an outline of our position:

- First and foremost we **do not** feel this proposal is necessary. The current capital requirement structure has served our industry well through one of the darkest economic periods in American history. Changes are not needed and will only restrict our industry and hurt our membership going forward while placing undue financial burden on credit unions. Additionally, the higher capital requirements are encouraging credit unions to retain earnings instead of fulfilling the mission of giving back to the members they serve. While this may make our regulators feel better, it's unwarranted and we would even argue reckless given the costs associated with complying with all the other regulatory changes facing our industry. The cost and burden of implementing new risk-based capital requirements beyond the current leverage ratio is filled with unintended consequences and ultimately a detriment to the industry they're meant to protect!

- The new rule calls for the NCUA to impose higher capital requirements on credit unions on a case by case basis. This is very troubling. Risk based capital has never been subjective. The Federal Credit Union Act states that the NCUA board may reclassify a credit union and that the board may not delegate this authority.

This rule allows an individual examiner to subjectively increase a credit unions RBC which is contradictory to federal law. Additionally, how are credit unions to properly assess risk going forward with this blanket of subjectivity within the regulation? We've been told by an NCUA examiner that this portion of the rule would allow NCUA to "appropriately regulate what it doesn't understand". We respectfully encourage NCUA to understand what they are regulating!

- The proposed risk weightings for MBL's, mortgage loans, longer-term investments, consumer loans, mortgage servicing rights and CUSO investments and loans are very troubling. The methodology used to calculate risk in these areas is contradictory to other risk factors and needs to be reworked. The current proposal is unacceptable and inconsistent with the true risk credit unions face in these areas. No consideration is given to credit risk on loans or limits of liability in CUSO ownership. The risk weighting of loans for credit unions is modeled to monitor concentration risk and as a result the weightings are higher than that of banks. This rule will prevent credit unions from making loans to its members and growing as an industry. Based on the performance of credit union originated loans versus banks there is absolutely no justification for credit unions to have a higher risk weighting.

- The risk weighting on investments compared to loans is not proportionate given the credit risk of each balance sheet strategy. An investment with a 5 to 10 year maturity, regardless of issuer, is given a risk weight of 150%. This is the same weight as a delinquent student loan. How can a 5 year CD investment fully backed by the FDIC have the same risk as an unsecured student loan that isn't paying according to its terms? In this instance the rule is focusing on interest rate risk rather than credit risk and the potential depletion of capital if a loss is incurred.

- The proposed RBC rule does not address the interest rate risk on the liability side of the balance sheet. If the rule is intended to incorporate interest rate risk into the calculation it should address both sides of the balance sheet. Consideration should be given to the complexity and expertise of each credit union and their ability to mitigate interest rate risk through matched funding.

- If this proposed rule were to be implemented in its current form the timeline for implementation of 18 months would place undue hardship on our industry. NCUA is changing the entire landscape of how we measure the lines of business we engage in that have been extremely successful for credit unions and necessary for our membership. Setting up new conduits to the markets we serve and finding ways to replace lost revenue to stay in line with restrictions imposed by this rule will take time. NCUA should be sensitive to this fact and write a rule that gives ample consideration to the time it will take to change.

Overall the proposed rule is most troubling when you consider how it will affect our ability to serve our members going forward. In looking back on our past success, our credit union made the strategic move to sell and service mortgages to the Federal Home Loan Bank (FHLB) through its Mortgage Partnership Finance (MPF) program in 2003. Based on our asset size at the time, had the proposed rules been in place, I question if our credit union would have been able to move forward with this program.

Ascentra Credit Union was $102 million in assets at the end of 2002. Attached to this letter is a recap our FHLB Serviced Mortgage Portfolio. As you can see it's had a great impact to our bottom line bringing in over $9 million in income with little risk to our capital. Additionally it's enabled us to expand our branch network while helping to raise our capital ratio from 7.67% at the end of 2002 to just under 10% today. Our credit union's decision to retain servicing of these mortgages has set us apart from other lenders in our area and enabled us to experience safe, sound, sustained growth over this period. This has impacted countless homeowners throughout the communities we serve. Delinquency and losses have been a small fraction of industry averages and we've been able to grow this area of our business throughout the economic downturn.

This program allowed us to keep making loans to members while large national and regional banks were pulling out of the market. The proposed RBC rule by the NCUA could keep credit unions from moving forward with a program like this, which in the end, would allow the large national and regional banks who were responsible for the mortgage meltdown in the first place, to benefit from less competition going forward. **How is that good for our industry and the members we serve?**

Below is an outline of the proposed RBC calculation impact to our credit union for this segment of our balance sheet:

- Mortgage Servicing Rights (MSR) are currently $954 thousand with an impairment of $8 thousand. The proposed rule would increase the risk weighted asset to $2.3 million! Over the life of our MSR's the maximum impairment has been $166 thousand. The rule is asking us to theoretically impair this asset 250% its book value when this could NEVER happen. The most it could ever be impaired is 100%.

- Our FHLB serviced mortgage portfolio balance is $210 million with a current delinquency ratio of 0.56%. The proposed rule would require us to risk weight this off balance sheet portfolio at 75% which would be $157 million! Over the life of this portfolio the maximum delinquency was 2.13%. If we applied that delinquency ratio to the current portfolio balance our potential loss would be $4.5 million. This is a **significant** difference from the proposed risk weighting. The MPF program is a shared risk portfolio with the FHLB. Our annual FHLB MPF Mortgage Servicing Valuation has determined that no additional ALLL needs to be reserved on this portfolio. The proposed rule is not taking into consideration the lack of credit risk in this portfolio or the additional layers of protection we have with the MPF program.

These examples exemplify the disconnect between actual risk on our balance sheet and the proposed calculation. We strongly encourage the NCUA to learn more about programs like this and to leave the current RBC system in place. If NCUA feels strongly that changes should be made then we ask that a new plan be derived that takes all these situations outlined in this letter into consideration. It is imperative that consideration be given to the evolution of a credit union and how new growth areas could be affected under the current plan.

As we've outlined in this letter the proposed rule is filled with unintended consequences that will be very harmful to our industry. It stifles innovation at a time when credit unions need to be diligent towards maximizing their bottom line and bettering the lives of the members they serve.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements. I can be reached at 563-459-6910 should you have any questions.

Sincerely,

R. Dale Owen
President & CEO
Ascentra Credit Union

Ascentra Credit Union

FHLB Serviced Mortgage Portfolio Recap

						Year to Date Actual					
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Number of Loans	469	213	189	91	145	198	462	702	554	672	324
Volume of Loans	41,981,169	19,721,795	18,196,934	9,562,040	14,456,598	22,570,121	52,316,138	77,592,873	65,924,738	82,901,704	40,582,334
Brokerage Fee	476,629	196,746	158,032	91,382	99,827	120,549	242,198	1,090,246	566,557	1,193,914	402,037
Servicing (net of amortization of MSR)	667	33,166	76,023	102,354	118,780	146,066	60,600	26,986	11,055	78,822	75,802
Gain on Sale of MSRs	0	0	0	0	0	0	662,930	571,729	470,370	569,776	284,634
Impairment of MSR (Expense) / Income	0	0	0	0	0	0	(7,399)	(96,646)	94,522	(156,921)	158,172
FHLB Dividend	3,108	21,466	55,631	106,121	131,246	141,055	72,199	146,935	238,895	358,426	358,316
Inception to date income (2003 -)	***480,404***	***731,782***	***1,021,468***	***1,321,325***	***1,671,178***	***2,078,848***	***3,109,376***	***4,848,626***	***6,230,025***	***8,274,042***	***9,553,003***
Stock Volume (Asset)	569,800	1,741,600	2,654,700	2,926,900	3,525,200	4,188,200	5,432,300	7,703,800	9,470,000	10,722,500	9,921,000
Mortgage Servicing Rights (Asset)	0	0	0	0	0	0	526,172	853,456	943,183	1,101,585	954,739
Impairment of MSR (Contra-Asset)	0	0	0	0	0	0	(7,399)	(104,045)	(9,523)	(166,444)	(8,272)
Portfolio Volume at Year End	**5,021,992**	**24,192,785**	**38,987,368**	**44,690,651**	**52,690,310**	**65,247,967**	**95,471,875**	**145,262,512**	**180,645,268**	**209,086,781**	**209,782,618**
Portfolio Count at Year End	**57**	**264**	**427**	**490**	**587**	**692**	**990**	**1,452**	**1,782**	**2,038**	**2,033**
Delinquent Number of Loans	**0**	**1**	**7**	**4**	**5**	**6**	**6**	**13**	**17**	**24**	**11**
Delinquent Amount of Loans	**0**	**18,095**	**830,841**	**391,403**	**575,982**	**503,283**	**518,567**	**1,245,838**	**1,511,270**	**2,485,883**	**1,169,490**
Delinqent Percentage	**0.00%**	**0.07%**	**2.13%**	**0.88%**	**1.09%**	**0.77%**	**0.54%**	**0.86%**	**0.84%**	**1.19%**	**0.56%**
Statistical Information											
Average Size of Loan Originated	*89,512*	*92,591*	*96,280*	*105,077*	*99,701*	*113,991*	*113,238*	*110,531*	*118,998*	*123,366*	*125,254*
Avg Brokerage Fee per Loan	*1,016*	*924*	*836*	*1,004*	*688*	*609*	*524*	*1,553*	*1,023*	*1,777*	*1,241*
Average Dividend Rate Paid by FHLB	*2.18%*	*1.23%*	*2.10%*	*3.63%*	*3.72%*	*3.37%*	*1.33%*	*1.91%*	*2.52%*	*3.34%*	*3.61%*
Average Size of Loan in Portfolio	*88,105*	*91,639*	*91,305*	*91,205*	*89,762*	*94,289*	*96,436*	*100,043*	*101,372*	*102,594*	*103,189*
Proposed RBC Calculation Impact	*Conversion*	*Risk Weight*									
Mortgage Servicing Rights	*1.00*	*2.50*									*2,366,167*
Portfolio Balance	*1.00*	*0.75*									*157,336,963*
Maximum Impairment of MSR									*2012 Year*		*166,444*
Maximum Delinquency of Portfolio									*2005 Year*	*2.13%*	*4,468,370*
Difference between worst case & proposed rule											
Mortgage Servicing Rights											2,199,723
Portfolio Balance											152,868,594